

US Equity Research
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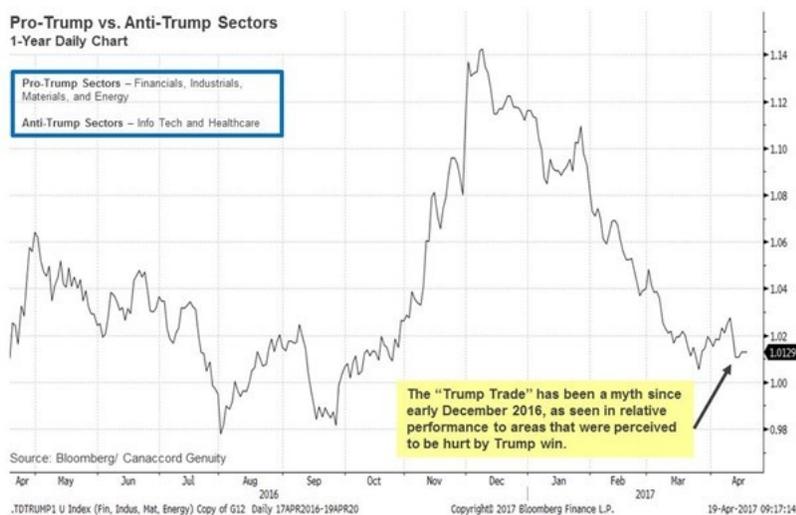
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Please leave Kevlar vest at home

Given the positive fundamental backdrop highlighted in our [April Strategy Picture Book](#), we have patiently been waiting for an opportunity to identify a more attractive entry point for the next sustainable leg higher. Although our key tactical indicators are still not quite where they need to be for a more offensive posture, the sector rotation and key macro indicators make clear that the defensive trade may already be overdone. In our view, the time to neutralize was in December when it looked like the Administration and Congress were aligned, and expectations were for significant regulatory reduction along with rapid pro-business healthcare and tax legislation. In early December, the “Trump trade” was fully engaged as (1) the relative performance of Info Tech was at a low, (2) the Financial, Industrial, Energy, and Materials sectors were experiencing a relative performance peak, and (3) the 10-year U.S. Treasury Yield was at 2.6%. In plain English, since December (when we [moved](#) to a market and sector neutral position), investors have totally shunned the “Trump trade” in favor of Info Tech and the more defensive sectors.

The equity market “Trump Trade” has been underperforming since December. The perceived positive Trump sectors are the Financials, Industrials, Energy and Material, while the negatives are Information Technology and Health Care. Since early December 2016, there has been a huge underperformance of the positive Trump sectors relative to the negative ones (Figure 1). Again, this shows that now is NOT the time to fade the Trump Trade.

Figure 1- The “Trump Trade” hasn't worked since mid-December



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The Defensive Macro Trade is already long in the tooth. The reversal of the offensive market action following the U.S. presidential election hasn't just been limited to the equity markets, but can be seen in the significant overbought condition in four of the most defensively viewed macro measures. Any of these taken individually mean very little, but when all reach into extreme overbought territory at the same time, it indicates a "Macro" trade has been engaged, which suggests the defensive posture has largely been reflected in investor behavior:

- The CBOE Volatility Index (VIX). Although still historically low, when the VIX gets this overbought, a volatility peak should be imminent (Figure 2).
- U.S. Treasuries Prices (UST). The move into UST has been dramatic enough to suggest weakness (higher yields) over coming months (Figure 3).
- Japanese Yen relative to the U.S. Dollar. The YEN has seen a sharp move higher that typically is associated with a "risk off" move (Figure 4).
- Generic Front Month Gold Futures. It appears the geopolitical risk associated with the various elections has been reflected in extreme overbought level of "safe haven" commodities (Figure 5).

Figure 2: The VIX level of overbought suggests volatility should be near peak

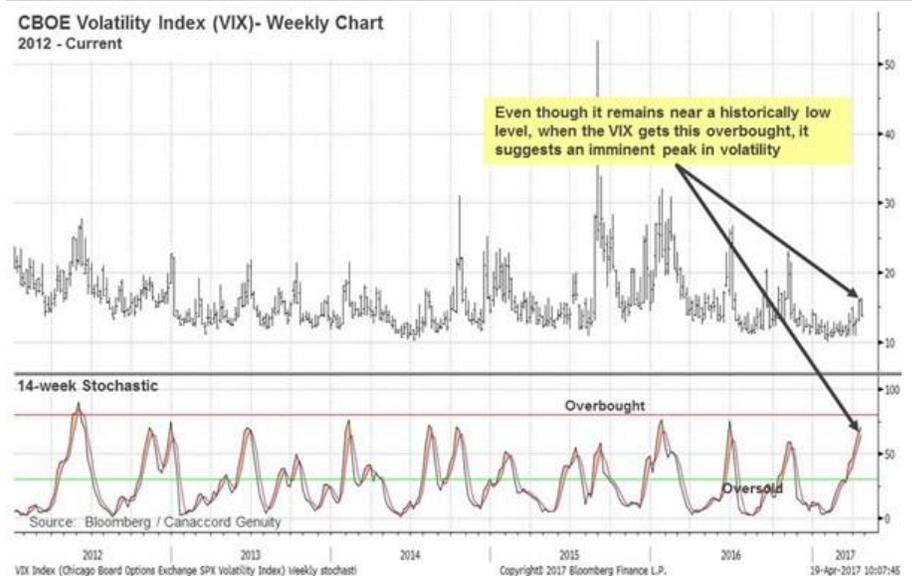


Figure 3: Move into U.S. Treasuries has been extreme

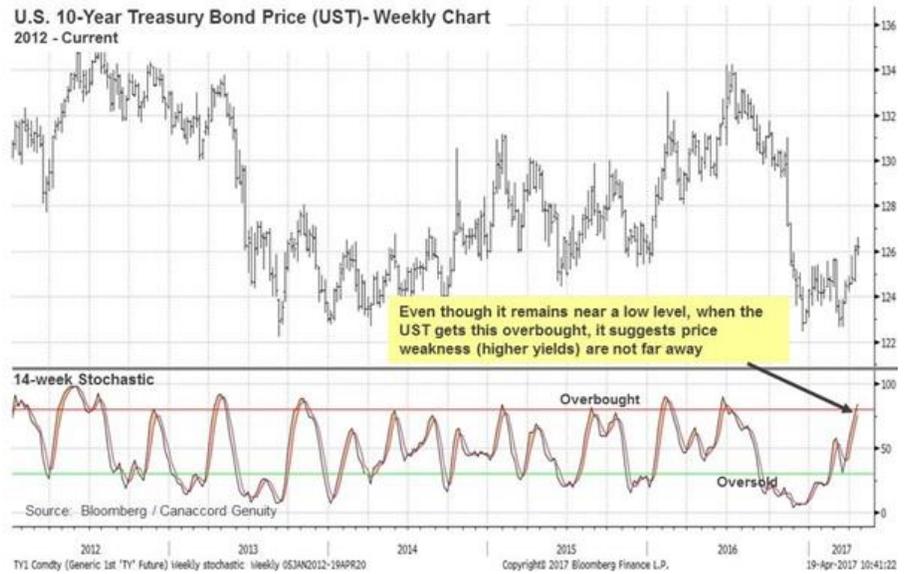


Figure 4: The “risk off” trade to the YEN has likely run its course

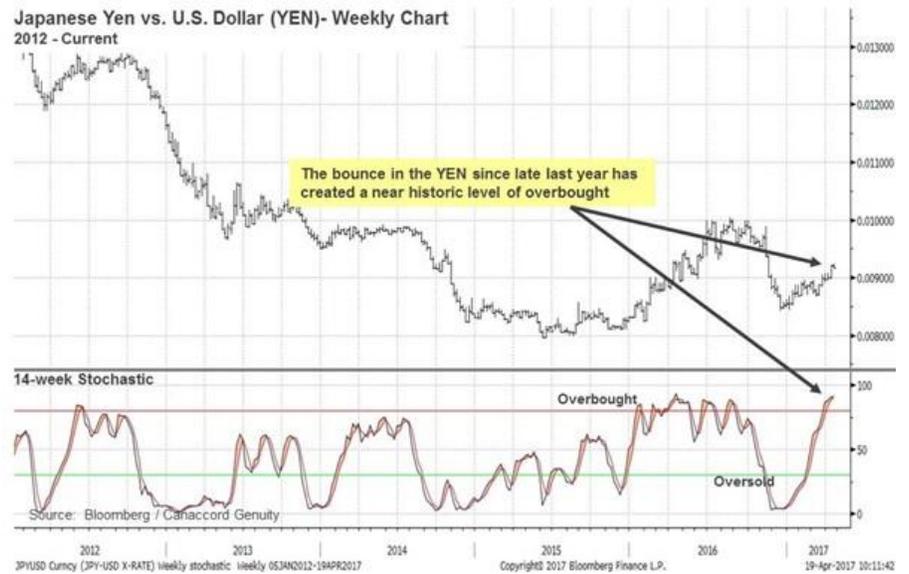


Figure 5: Gold is in extreme overbought and below prior peak

Summary – looking to buy any further fear-based weakness as it develops. We would look to become more aggressive as the market works off its overbought condition because: (1) our positive fundamental core thesis remains in place, (2) economic data and EPS continue to improve, and (3) nothing in our credit-based indicators suggests any significant and sustainable deterioration that would warrant a more defensive position. Although we are now market and sector neutral, we want to be positioned to capitalize on any fear-based weakness and believe our SPX 2017 target of 2,470 may prove to be conservative.

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Date and time of first dissemination: April 19, 2017, 13:23 ET

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Distribution of Ratings:

Global Stock Ratings (as of 04/19/17)

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	#	%	%
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Hold	275	29.16%	18.18%
Sell	28	2.97%	10.71%
Speculative Buy	70	7.42%	70.00%
	943*	100.0%	

*Total includes stocks that are Under Review

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